

MAJOR REGULATIONS STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

DF-131 (NEW 11/13)

STANDARDIZED REGULATORY IMPACT ASSESSMENT SUMMARY

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- Statement of the need for the proposed major regulation.

Nearly half of California workers are on track to economic hardship upon reaching retirement age. In 2016, the California Legislature enacted and the Governor signed Senate Bill 1234 (Chapter 804, Statutes of 2016) which granted the California Secure Choice Retirement Savings Investment Board (Board) the authority to take the steps necessary to implement the CalSavers Retirement Savings Program, a retirement savings program for private sector workers in California that lack access to a retirement savings program through their employer. The legislation also granted the Board to adopt regulations necessary to define how the Program will operate. The proposed regulations would establish the Program's first set of regulations, defining the rules and procedures for covered employers, eligible employees, and the general operation of the Program.
- The categories of individuals and business enterprises who will be impacted by the proposed major regulation and the amount of the economic impact on each such category.

The regulations will result in indirect impacts for employers with at least five employees that do not maintain a retirement savings program and individuals that choose to participate in the program.

In 2019, this impact is estimated to be about \$1.25 million in total opportunity costs for 8,002 employers. In 2020, the Board estimates 23,035 employers will participate in the program, resulting in impacts of about \$3.4 million. In 2021, the Board estimates 294,899 employers will participate in the program, resulting in impacts of about \$45.7 million. Annual employer impacts would decline slightly the next year, as employer duties decline in the second year of participation. These estimates use assumptions about retirement plan sponsorship among employers in California and assume all eligible employers register for the program.

There may be fiscal impacts due to changes in annual sales and use tax (SUT) revenue due to consumption changes resulting to new savings by program participants. For 2019, the authors estimate about \$84 million in reduction of SUT revenue due to reduced consumption by program participants. The annual SUT impact will increase to \$125 million in 2020 and \$232 million in 2021. These estimates assume 70% of the over 7 million eligible employees participate in the program and do so under the default account settings. The authors used additional assumptions for the sales and use tax rate, household consumption subject to SUT, annual investment return, and participant behavior.

These consumption changes may also result in macroeconomic impacts detailed in the SRIA. Because the program will result in new investment in California, there could also be significant macroeconomic benefits due the adoption of the regulations and operation of the program.
- Description of all costs and all benefits due to the proposed regulatory change (calculated on an annual basis from estimated date of filing with the Secretary of State through 12 months after the estimated date the proposed major regulation will be fully implemented as estimated by the agency).

Benefits: Over 7 million employees that currently lack access to a workplace retirement savings plan will gain access to a workplace retirement savings plan. Studies show individuals are fifteen times more likely to save for retirement when provided access to a workplace savings plan. By saving for retirement through the program, individuals can accrue significant retirement savings, allowing them better ability to maintain their standard of living upon reaching retirement age. Participating employers should benefit from some improvements in the labor market, as the Program will provide employers a retirement savings program that requires minimal administration and no direct costs or fees. The program is expected result in macroeconomic benefits associated with new investments by program participants. There should be long-term fiscal benefits due to increased consumption in old age for program participants and decreased reliance on taxpayer funded assistance programs.

Costs: The proposed regulations do not impose direct costs on individuals or employers. Although employers will not incur any direct costs related to the program, there may be some opportunity costs associated with the program due to the time necessary for employers to register for the program, facilitate employee enrollment, and establish payroll contributions. For each employer, the authors estimate average annual impacts of about \$130 annually in opportunity costs, however those costs may differ substantially depending on an employer's size, staff, and payroll systems. Collectively, the authors estimate employer impact of about \$1.2 million in 2019, increasing each year thereafter. Because the program is expected to result in significant new savings for millions of Californians, the program may result in a reduction in sales and use tax revenue due to diminished consumption. For 2019, the authors estimate up to \$84 million in reduced sales and use tax revenue and increasing amounts after. Long-term, the program should result in overall gains to sales and use tax revenue because individuals should accrue substantial savings through investment interest.
- Description of the 12-month period in which the agency estimates the economic impact of the proposed major regulation will exceed \$50 million.

The year 2019, the first year of CalSavers operation, should result in economic impacts exceeding \$50 million due to new savings among participating individuals and related impacts due to the new savings, including impacts to sales and use tax revenue and macroeconomic impacts due to consumption losses and increases in new investment. Each year thereafter should result in increasingly greater impacts.

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5. Description of the agency's baseline:

The proposed regulations were not needed prior to passage of Senate Bill 1234 in 2016, which, among other things, directed the California Secure Choice Retirement Savings Investment Board to design and implement the CalSavers Retirement Savings Program. Prior to the implementation of the Program, over seven million California workers lacked access to a workplace retirement savings plan and over half of California employers did not provide a workplace retirement savings plan. To establish the economic baseline for this analysis, we assume conditions without the Program and, therefore, no legislative mandate for certain employers to maintain a workplace retirement plan. The SRIA used the Regional Input-Output Modeling System (RIMS II) developed by the Bureau of Economic Analysis to assess the economic impacts of the proposed regulations.

6. For each alternative that the agency considered (including those provided by the public or another governmental agency), please describe:

- a. All costs and all benefits of the alternative
- b. The reason for rejecting alternative

Alternative 1: adopt a default contribution rate of 3%

Alternative 1 was rejected because it would likely result in insufficient retirement savings for the target population, would not result in a measurably greater number of employees participating, and would necessitate higher administrative fees than the baseline.

Alternative 2: not implement "automatic escalation"

The Board rejected alternative 2 due to the benefits of automatic escalation for accruing meaningful retirement savings and incorporation of policies that mitigate risk of financial impacts.

Alternative 3: designate a biennial open enrollment period

The Board rejected Alternative 3 because it would restrict the times at which an employee may choose to enroll in the Program, thereby reducing their likelihood of accruing meaningful retirement savings.

Alternative 4: prohibit individual participation

Due to the benefits of greater retirement security for California workers and the legislative mandate to make the Program portable, the Board adopted proposed regulations that would allow individuals to participate outside of an employment relationship.

Alternative 5: establish Traditional IRA as the default IRA type

Because the greatest share of participants are likely to benefit more from saving in a Roth IRA treatment rather than Traditional, the proposed regulations would establish Roth IRAs as the default IRA type.

7. A description of the methods by which the agency sought public input. (Please include documentation of that public outreach).

The process for developing the proposed regulations began in the summer of 2017 with a series of meetings with informal working groups composed of representatives from employer and business organizations in the state, organizations representing employees, non-profit organizations focused on financial empowerment and economic inclusion, and others. Staff conducted several program design feedback meetings were held with these informal working groups.

Staff began providing regular updates on the development of regulations at public Board meetings beginning with the August 28, 2017 Board Meeting, focusing the initial presentations on the input of the informal working groups. Staff provided a second update on the input of the informal working groups at the September 25, 2017 Board meeting. Staff provided an in-depth presentation on options and recommendations for regulations at the October 23, 2017 Board meeting. To prepare the materials for the meeting, staff consulted with program consultants, stakeholder organizations, policymakers at the state and federal level, non-profit organizations, and peer-reviewed research. Each of these meetings were open to the public and public comment periods were provided.

At the November 27, 2017 Board meeting, staff presented the Board with a preliminary draft of the regulations. Following that meeting, staff solicited comments from the public on the draft regulations in writing and invited members of the public to participate in two workshops on the draft regulations held December 5 and December 7, 2017. Members of the public could participate in the December 5, 2017 meeting in-person or by phone. The December 7, 2017 workshop had been scheduled to be held in Los Angeles and by phone, but the in-person workshop was cancelled due to wildfires spreading in the area. Instead, staff conducted that workshop entirely by phone. Written comments were posted publicly on the Program website.

At the December 18, 2017 Board meeting, staff presented a summary of comments received, as well as copies of written comments, to the Board. Following that meeting, staff incorporated direction given by the Board to develop a set of proposed regulations, presented to the Board at the February 26, 2018 Board meeting.

8. A description of the economic impact method and approach (including the underlying assumptions the agency used and the rationale and basis for those assumptions).

The SRIA uses assumptions and calculations for current individual retirement savings to establish the baseline and a series of assumptions and estimates to establish differences from that baseline due to adoption of the proposed regulations. To estimate macroeconomic impacts, the authors used the Regional Input-Output Modeling System (RIMS II), using the type I multipliers for the California region. The authors used the RIMS II multipliers to estimate macroeconomic impacts related to consumption changes and investment changes associated with the Program.

To measure consumption impacts, the authors used assumptions on total annual contributions by participating employees and typical expenditures for participating individuals based on the top-seven categories (including a miscellaneous category that includes all other significant categories of expenditures). The authors developed assumptions for the portion of contributions that constitute new savings for the individuals and the portion of lost consumption that would be offset by new consumer debt.

To measure investment impacts, the authors used assumptions for total annual contributions and investment interest, developed assumptions for the portion of California businesses included in those investments, and identified the top-three categories of industries included in those investments.

Agency Signature

Date

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Steve Juarez, Chair, California Secure Choice Retirement Savings Investment Board